

12 STEPS FOR SECURING YOUR FINANCIAL FUTURE

A Guide for Military Families

Families of military service personnel, especially members of part-time or reserve forces, face incredible emotional and financial challenges when their loved ones are called to active duty or deployment. However, through communication and careful planning, families may be able to avoid many financial hardships, or at least, minimize their impact.

This guide was designed to help military families navigate potential obstacles in their money management. Below are twelve steps one can take to help secure a family's financial future before, during and after being called to active duty.

1 COMMUNICATE. It is standard advice for any couple to communicate with each other about financial matters. This is particularly important for military families who may be anticipating activation or deployment. If the activated service member is typically responsible for managing the household finances, it is imperative that he or she sit down with the other spouse to go over the current financial picture and explain the record-keeping or bill-paying systems in place. Even if the non-serving spouse is the primary financial manager, the couple needs to work together on a plan for financial decisions one may face while the other spouse is away. This includes day-to-day issues like how to handle a change in income or the need for new childcare arrangements, but also long-term goals like saving for college or a new home. In single-parent families or in homes where both spouses are activated, you should designate a trusted relative, friend or professional (such as a bill-paying service or financial planner) to manage money matters during your absence.

2 BE PREPARED. Being called up often causes profound shifts in a family's routine, and requires extremely quick adaptation. That is why it is a good idea to have some plans in place before activation. Imagine what would need to be taken care of if you got the call right now that you have one week before being deployed to combat.

Service Members:

Do you know if your household would experience a change in income?
If so, would it be an increase or decrease?

Will your spouse need to find a job to make up the difference?
Or, if you will be increasing your income, how do you plan to save or
spend the earnings? Will you need new childcare arrangements?

Does your spouse know who to call for repairs?

Will there be changes in your health coverage while you are deployed?

Take the time to answer these questions and more...

Now, make a running list of all the things that came to mind and start creating your plan of action.

3 CREATE A BUDGET. Before you can figure out how your finances will be affected by activation, you need to understand how money currently flows in and out of your household. Sit down with your spouse and write down all your income and expenses in a month. Review your recent pay stubs, checkbook registers, bank statements, credit card bills, etc. to help reconstruct the details. If this is the first time you are making a budget, you may find it useful to review several months of records. Your income may include a salary, wages and tips, social security or pension benefits, child support or alimony and interest and dividends on your savings and investments. Your expenses will likely fall into two categories: fixed and flexible (also called discretionary). Fixed expenses are recurring monthly costs, like rent or mortgage payments, credit card payments, insurance premiums, utility payments, child care, and so on. Flexible expenses are things like food, gifts, entertainment, clothing, etc. One great way to alleviate your strained budget when a spouse has been called to active duty is to take advantage of your eligibility as a family member or other dependent for medical benefits and commissary privileges. Your Department of Defense Guard and Reserve Dependent ID Card, accompanied by a copy of the service member's orders to active duty, will help you access those privileges. You should contact your command or unit Family Readiness Officer for more information about specific requirements and procedures.

4 REVIEW AND UPDATE YOUR INSURANCE. Every couple should review insurance needs, including life, disability, medical and property insurance, at regular intervals. This should include not only the amount of coverage, but also the beneficiary designations. Be sure to take advantage of each spouse's insurance options through work, and compare all plans before you make a decision. You want to be sure to purchase all the coverage you need, but be sure you are maximizing the bang for your bucks. For example, there is a voluntary dental insurance

12 Steps for Securing Your Financial Future

program available to military families that may fit your needs and be more affordable than dental insurance options offered through the non-service member's employer. Also, find out from your service member's civilian employer what will happen to your coverage while he or she is on active duty. If you are not still covered by your spouse's civilian employer's plan, look into getting coverage through the military. Under certain circumstances, Reservists and their families are entitled to the same medical care as families of active duty members[†]. These circumstances are:

- The Reserve component member is ordered to or extended on active duty for more than 30 days.
- The Reserve component member medically retired due to a service-connected injury or disease incurred or aggravated while on active duty.
- The Reservist has completed 20 years of qualifying service, reached age 60 and started to draw retired pay. The Reservist in this category and eligible family members are entitled to medical benefits until the Reservist reaches age 65, at which point they are eligible for Medicare.
- The Reservist died on active duty or as a result of a condition incurred or aggravated while on active duty.

It is particularly important to make sure the spouse who stays behind is protected while a service member is away. Consider purchasing a life insurance policy for the civilian spouse. Also, a long-term disability to any family member can jeopardize your personal savings and put your family at financial risk. Depending on your policy, long-term insurance will pay you a certain percentage of your salary if you're disabled for a certain period of time and unable to work. Many employers offer this benefit with no or very low premiums. However, if your employer does not offer it, you can purchase a policy from an independent insurance agent. As always, you may find it helpful to consult with an agent or financial planner to determine what types of insurance policies best fit the needs of your family.

5 PLAN YOUR ESTATE. If you and your partner do not have wills, have them drawn up. If you do have a will, review it to determine whether they should be updated to reflect any changes in your life. Also make it a habit to routinely check the beneficiary designations on all your policies and benefits – don't forget your retirement and pension plans. Make sure both of you know where important documents such as insurance plans, wills, tax information, account numbers, investment information, etc. are kept. Veterans and their families should be sure to get updated information about burial benefits. Eligible veterans can be given a gravesite in one of the national cemeteries, opening and closing of the grave, perpetual care, a Government headstone or marker, a burial flag, and a Presidential Memorial Certificate, at no cost to the family. Some veterans may also be eligible for Burial Allowances. Also be aware that cremated remains are buried or inurned in national cemeteries in the same manner and with the same honors as casketed remains. There are also some burial benefits available for spouses and dependents. It is best to contact the Department of Veterans Affairs for specific eligibility requirements and other important information. And, while no one likes to think about death or burial arrangements, it is a good idea to try to prepare in advance. If a gravesite will be requested in one of the VA national cemeteries, they recommend that families should get their plans in order by discussing cemetery options, collecting the veteran's military information and contacting the cemetery where burial is desired. For burial in a private cemetery, if the family would like to request a government headstone or marker, the VA recommends filling out a VA Form 40-1330, *Application for Standard Government Headstone or Marker for Installation in a Private or State Veterans' Cemetery*, in advance, and keeping it with the veteran's military information and discharge papers for use at the time of need.

[†] Information from the Department of Defense publication, Guide to Reserve Family Member Benefits, published June 19, 2000.

6 ESTABLISH AN EMERGENCY FUND. This is the absolute best way to prepare for future financial setbacks, particularly those a family may encounter because of activation. It can also be one of the hardest goals for families to actually achieve because it can be so tempting to divert that savings elsewhere in the budget; especially if times are tight now, you may think you cannot afford to save. However, you may be surprised that if you start each month by paying yourself first – by putting at least a small portion of your income into an emergency fund – it will become an easy habit to keep. Consider having a certain amount of money automatically taken out of your paycheck or checking account each month and deposited into a savings or investment account. It is really true that if you don't see it, you won't miss it – or, you won't spend it, at least. And you'll probably have a much easier time accumulating savings if you automatically pay yourself first, rather than waiting to see what, if anything, is left over at the end of the month. And if you do find yourself facing a financial crisis in the future, the benefits from planning ahead will make it worth the effort. You should start by figuring out the amount of money you need for housing, food, insurance, medical care and other necessities for at least six months. Then set aside small amounts of your money each month until you have an emergency fund equal to at least that amount.

7 OUTLINE YOUR FINANCIAL GOALS, AND PUT THEM IN WRITING. Saving money can be a hard habit to start, but it is easier to do when you know what you're saving for. Particularly for military families, it can be daunting to stay on track towards fulfilling certain dreams because of the unique financial challenges that come from deployment, activation and even return to civilian life. But putting your thoughts on paper will help make the goals actually seem attainable, and give the family a shared understanding of priorities. Also, considering the possibility that deployments can be extended for months at a time, it will be helpful for the person in charge of the finances to have a point of reference for making any longer-term financial decisions.

8 REDUCE YOUR DEBT. If you find yourself over your head in debt, you must take action – and the sooner, the better. Even if your financial situation is manageable now, it is a good idea to pay down your debt levels, particularly in anticipation of activation or deployment. Debt, particularly credit card debt, has a way of spiraling out of control before we even realize we have gotten ourselves in too deep. Ideally, you would not charge more than you could pay off in total each month. If you are not in that position, it is important that you try to pay more than the minimum amount due. You would be surprised to know that it would take you 14.3 years to pay off a card with a balance of \$1,000 and an interest rate of 15% if you only paid the minimum amount due each month – and that assumes discontinued use of the credit card! That is due to something called “compound interest” and the way the credit card companies apply payments toward a ratio of interest and principal. But when you make supplemental payments to the minimum amount due, even if it's only \$20 extra, that portion is applied directly to the principal and can substantially reduce the length of time it will take you to get your balance to zero. If you find that can pay only the minimum amount due, then try to cut a few items out of your monthly budget and apply those savings toward paying down your debt. Getting out of debt is hard work, and takes motivation and discipline. If you find yourself struggling to do it on your own, consider seeking the assistance of a reputable nonprofit agency, like Consumer Credit Counseling Service. They can help you develop and implement your budget, and work with creditors to create a realistic repayment plan. Beware, however, that there has been growth in the credit services industry, which includes some companies who are only out to take advantage of vulnerable consumers. It's best to stick with the credit counseling services that are accredited by the Association of Independent Consumer Credit Counseling Agencies or the National Foundation for Credit Counseling.

Sample of Most Popular Investment Scams for 2005

- 1. Senior Investment Fraud.** Low interest rates, rising health care costs and an increased life expectancy have set seniors up as targets for con artists peddling investment fraud, including promissory notes, charitable gift annuities and viatical settlements. Seniors are particularly targeted because they often have access to a large amount of assets as a result of a lifetime of savings and buildup of home equity.
- 2. Variable Annuities Sales.** As sales of variable annuities have risen, so have complaints from investors—most notably, the omission of disclosure about costly surrender charges and steep sales commissions. These surrender charges and high fees combine with other factors to make variable annuities inappropriate for many investors, particularly for purchases in retirement accounts.
- 3. Charity/Natural Disaster Scam.** Con artists often try to make money out of tragedy. There may be con artists attempting to collect money under the guise of being involved in the tsunami relief effort or by offering phony bonds to finance the reconstruction of areas affected by the disaster. Donors need to check out the charity carefully, demand details, beware of excessive pressure, and make sure any donations are tax deductible. E-mail scammers are sending out pleas for help from phony survivors, invading recipients' computers and stealing financial and other information from those who click on links in the documents.
- 4. Ponzi/Pyramid Schemes.** Typically an unknown company is offering eye-popping returns from some plausible sounding, but vaguely described business activity. Such schemes are often spread by word of mouth through groups such as churches, ethnic groups, or professional affiliations, frequently in an atmosphere of secrecy. The formula is simple: Promise high returns to investors and use their money to pay previous investors.
- 5. Military Fraud.** Predatory salespeople target military recruits and active military service personnel who are misled into purchasing unsuitable investment products. The NASD, together with the SEC, recently settled a major mutual fund practice case against a firm that specialized in selling expensive systematic investment plans to military personnel. The firm agreed to pay \$12 million following findings that the plans were sold in a misleading fashion. The fines will be used for restitution to affected investors with the balance used for investor education for the U.S. military and their families.
- 6. Viatical Settlements.** One of the riskiest investment products, viatical contracts are interests in the death benefits of life insurance policies. Investors get a share of the death benefit when the insured later dies, after a fee is paid to the viatical investment broker. These investments are extremely risky for numerous reasons, including difficulty predicting life expectancy, the promoter not paying policy premiums as promised, or the promoter simply stealing the investor's money.
- 7. Living Trust Mills and Other Pretext Solicitations to Seniors.** The initial approach to clients may be to solicit seniors at "seminars" purportedly designed to educate participants about the benefits of living trusts or other estate planning subjects or general financial planning. These seminars misrepresent the actual business of the sales representative and the true purpose of the solicitation. The real goal of the sales agent is to obtain detailed personal financial information, which will then be used to sell the senior an unsuitable or unlawful financial or investment product.
- 8. Bait and Switch Schemes.** Investors should be very wary about advertising in which a particular investment promises spectacular profits, but investors have to be lured into the office to get it. This is the bait. Once in the office to purchase the investment, the sales agent discourages the investor from investing in the advertised product. The sales agent then switches an investor into a different investment.
- 9. Wrong Numbers and Stock Tips Scam.** Some people are finding that they have received a "misdialed" call from a stranger, leaving a "hot" investment tip for a friend. The message is designed to sound as if the caller didn't realize that he or she was leaving a hot stock tip on the wrong message machine. Con artists have also sent these fraudulent messages through e-mails and faxes.
- 10. Online Escrow Fraud.** Purchases through online auction sites such as eBay have become a popular arena for fraud. Online escrow services are often used for expensive online purchases such as computers, electronics, jewelry, and cars. Legitimate online escrow companies act as a neutral third party that holds payment for merchandise until the buyer receives the merchandise. However, a fraudulent escrow company will lure unsuspecting buyers or sellers to transact business through their Web site and then keep the funds and/or goods.

Source: California Department of Corporations; www.corp.ca.gov

9 INVEST IN YOUR FUTURE. It is never too soon or too late to save for retirement. Don't put it off, and also do not assume it is a lost cause if you have not started saving already. It is a good idea to educate yourself and your family members about your military retirement benefits, and the earlier you do so, the more time you will have to maximize those benefits, and to create a plan for enjoying a happy, healthy retirement. Once you have a handle on what types of services and subsidies you may be eligible for when you retire from the service, you and your family can create a vision of when and how you would like to retire; what activities you plan to pursue, whether it is traveling, new hobbies or even a new career. Then you can work together to develop a plan of action for reaching retirement. There are many financial planning professionals who can assist you with defining your retirement goals and guide you to a secure financial future. However, always be on the alert for deceptive and fraudulent investment pitches. Know that no investment is risk-free, and a high rate of return means you will take a greater risk. Before investing, get written information, like an annual report, about the firm and inquire about the brokers with whom you are planning to do business. Do your homework: check into the firm's professional background, registration/license status and disciplinary history. The Better Business Bureau (www.bbb.com) and Attorney General's Office (www.ag.ky.gov) are both great

places to seek information about popular scams and tips for being a savvy consumer.

10 TAKE ADVANTAGE OF WHAT UNCLE SAM OFFERS YOU. If your family's military income is less than your previous civilian income, you may be concerned about how to make ends meet. Now, more than ever, it is a good idea to maximize the military benefits that are available to you. Every branch of the military has a relief organization for members and their families to help with emergency needs. The American Red Cross may also be able to help. While this is not a long-term financial solution, it can help keep a roof over your head and food on the table during these trying times. If you find yourself suddenly in need of a new childcare arrangement, look into DoD-sponsored programs. Reservists on active duty or performing inactive duty training are eligible to participate. Also, when given the choice, patronize businesses that offer military family discounts. For instance, many state parks and other tourist destinations offer discounts for service members and their families. It can make it easier to squeeze in some much-needed recreation during difficult times. Additionally,

12 Steps for Securing Your Financial Future

some other companies, like cell phone service providers and airlines offer reduced rates for military families. Do not be shy about asking businesses you frequent if they offer or would consider offering discounts for service members. You may be surprised by the results – and every penny saved will add up in the long run.

11 **KNOW YOUR RIGHTS AND RESPONSIBILITIES.** The Military Family Tax Relief Act of 2003 provides special tax breaks for active members of the Armed Forces. Among them are deductible travel expenses for members of the Guard and Reserves, home sale capital gain tax exclusions, increased death benefits and exclusion of taxes on those benefits. There is also a waiver of the penalty tax from qualified tuition plans or Coverdell Educational Accounts for attendees of U.S. service academies. For more information, the IRS has a special section devoted to military personnel on its website, www.irs.gov. Also, it is probably a good idea to consult with a tax professional for applicability, and to find out how to maximize these benefits for your household. You should also familiarize yourself with the protections afforded to you by the federal law known as the Uniformed Services Employment and Reemployment Rights Act of 1994, or USERRA, which prohibits discrimination against members of the United States military or those who serve in the military reserves, on the basis of their service. For more information about USERRA, contact the U.S. Department of Labor: www.dol.gov; or the website of the National Committee of Employer Support of the Guard and Reserve: www.esgr.org. Another federal law that was designed to help service members handle their legal affairs and reduce financial obligations while on active duty is the Servicemembers' Civil Relief Act, or SCRA. Among the benefits you may be entitled to are reduced interest rates on your debts, and protection from eviction or foreclosure. For more information on SCRA, check out: military.com.

12 **REACH OUT TO OTHER SOURCES OF ASSISTANCE.** The sacrifices of service members and their families are as commendable as they are significant. Be assured, there are many individuals and organizations who are dedicated to helping you through tough financial and emotional times. Take the time to become familiar with some of these groups, and keep a list of important numbers handy in case you ever need a little extra help.

For more information:

FINANCIAL EDUCATION AND SERVICES

Kentucky State Treasurer's Office: www.kytreasury.com;
(502) 564-4722
Tomorrow's Money: www.kentucky.tomorrowsmoney.org
Better Business Bureau Military Line: www.bbb.org
Association of Independent Consumer Credit Counseling Agencies:
www.aiccca.org; (800) 450-1794
National Foundation for Credit Counseling: www.nfcc.org;
(800) 388-2227
Consumer Credit Counseling Service: www.cccservices.com;
(800) 355-2227
National Association of Personal Financial Advisors: www.napfa.org;
(800) 366-2732
Financial Planning Association: www.fpanet.org; (800) 322-4237
National Association of Insurance and Financial Advisors:
www.naifa.org
Insurance.com: www.insurance.com
Internal Revenue Service: www.irs.gov

CHILD CARE RESOURCES

Child Care Aware: www.childcareaware.org; (800) 424-2246
Nation's Network of Childcare Resource and Referral:
www.naccrra.org; (202) 393-5501

MILITARY SUPPORT

America Supports You: www.americasupportsyou.mil
American Red Cross: www.redcross.org
Air Force Reserve: www.afreserve.com
Air Force Aid Society: www.afas.org
Air National Guard: www.ang.af.mil
Alliance for Children and Families: www.alliance1.org
Army Family Liaison: www.hqda.army.mil/acsim/family/family.htm
Army Emergency Relief: www.aerhq.org
Army Family Team Building:
www.trol.redstone.army.mil/mwr/afbt/index.html
Army National Guard: www.ngb5.ngb.army.mil
Army Reserve: www.armyreserve.army.mil/usar
Coast Guard Mutual Assistance: www.cgmahq.org
Coast Guard Reserve: www.uscg.mil/hq/reserve/reshmpg.html
Defense Finance and Accounting Service: www.asafm.army.mil/DFAS
Department of Defense: www.defenselink.mil
Marine Corps Reserve: www.marforres.usmc.mil
Military Family Resource Center: mfrc.calib.com
National Military Family Association: www.nmfa.org
Naval Reserve: www.navalreserve.com
Navy-Marine Corps Relief Society: www.nmcrrs.org
Kentucky Department of Veterans Affairs: www.kdva.net
U.S. Department of Veterans Affairs: (800) 827-1000
Reserve Affairs: www.defenselink.mil/ra
TRICARE: www.tricare.osd.mil
Employer Support of the Guard and Reserve: www.ncesgr.osd.mil
Lifelines: www.lifelines4qol.org
Military Assistance Program: www.dod.mil/mapsite
U.S. Army Community and Family Support Center Morale, Welfare
and Recreation: www.armymwr.com

Offered as a public service by

Jonathan Miller
KENTUCKY STATE TREASURER

1050 US Highway 127 South, Suite 100
Frankfort, Kentucky 40601
(502) 564-4722



www.kytreasury.com

©2005 Kentucky State Treasurer Jonathan Miller
Materials developed by Angela M. Burton, *Policy Director*
Layout by Kenneth Mansfield, *Communications Director*